
**MONETARY POLICY AND FINANCIAL STABILITY IN NIGERIA: A
COMPARATIVE ANALYSIS**

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Abstract

The research project is carried out on "Comparative Analysis of Nigerian Monetary Policy and Financial Stability from 1990-2015". The aim is to ascertain the degree of performance of monetary policy in achieving monetary and financial stability and a sound financial system. Data were collected through the questionnaire's administration, and Pearson Product Moment Correlation Co-efficient (PPMCC) approach was used to test the hypothesis formulated for decision-making. This research's overall finding makes a vital contribution to understanding monetary policy and financial stability in Nigeria. In the process, the report has confirmed some of the findings in earlier surveys by the regulatory authorities especially with prospects for findings of the report point to the direction of informed knowledge on monetary policy and the role of CBN in ensuring financial system stability. It was discovered that the prospect for effective monetary policy in Nigeria depends mostly on sound monetary policy devoid of the pressure of financing the government deficit, restructuring of financial institutions, in order to maintain a healthy and competitive financial sector necessary for the transmission of monetary policy. The impulse to the real sector of the economy and CBN should regularly consult with banks and the financial community to make the operator appreciate its monetary and financial stability. The Central Bank of Nigeria (CBN) is urged to strive to gain a full understanding of the concept as well as design framework to use in achieving financial soundness to enable her to take a bold and proactive policy measure capable of entrenching discipline and corporate governance in the system to avert an impending crisis or drastically reduce the potential impact of the crisis on the economy.

Keywords: Monetary Policy, Financial System, Financial Stability, Economy, Monetary Regulatory Authority, Central Bank of Nigeria (CBN), Financial Policy Measures, and Corporate governance.

1.0 INTRODUCTION

1.1 Background to the study

Since its establishment in 1958, Nigeria's central bank has continued to play the traditional role expected of the central bank, which is the regulation of the stock of money in such a way as to promote social welfare. To maintain domestic price and exchange rate stability is the main objective of Nigerian monetary policy, and since it is critical for attaining sustainable economic growth and external sector, variability (Sanusu, 2002). The financial crisis and its long-lasting legacy have shaken up the macroeconomic policy framework that stabilises the economy. A rethinking of the monetary policy framework focused primarily on maintaining price stability. Price stability has proven not to be a sufficient condition for financial stability, and lack of financial stability can have a large negative feedback effect on price stability. Secondly, it accelerated the introduction of a new policy domain.

Financial stability had figured highly among Central Banks' objectives with policy measures ranging from interest rate stabilisation to serving as a last resort lender. The effectiveness of any central bank in executing its function hinges crucially on its ability to promote monetary stability, economic and financial welfare of Nigerians by actively overseeing a stable and efficient financial system. Price stability is independent of money as a medium of exchange, store of value, a standard for deferred payment and unit of account. The role is anchored on using a monetary policy that is usually targeted towards achieving future employment, rapid economic, price stability, the external balance of payment and active financial system.

The study first surveys the evolution of financial-stability and macro-economic-stability concern in central banking and monetary policy. Attainment of monetary policy devolves on a Central Banks' ability to evolve effective monetary policy and efficiently implement it. Implementation is often tricky because of conflicting conceptual issues, various constraint and other day-to-day realities. This role is anchored on monetary policy that is usually targeted towards achieving future employment equilibrium, rapid economic growth, price stability, external balance and stable financial system. Monetary management inevitably involves trade-offs in overall objectives and achievable targets. Management is one of the leading monetary functions of the CBN, which involves the common control of the system's liquidity level to minimise inflationary pressures. Periodically, the CBN determines the target growth rate of money supply compatible with overall policy goals. In recent time, the CBN has relied mainly on Open Market Operations (OMO) for liquidity management with the primary objective of controlling bank reserve through the sales or purchase of securities to attain a target base money and ultimately on the overall optimal money supply.

The global financial crisis in 2007-2009 created a paradigm shift in the manner in which global economics are run. The experience has revealed that macroeconomic stability is vulnerable in the face of financial instability accorded prominence in the global arena, giving rise to establishing the Financial Stability Board that set up developing nations' leaders. The leaders coordinate national financial authorities and international standard-setting bodies to develop and promote effective regulatory, supervisory, and other sectors policies.

However, the objectives of monetary policies in Nigeria over the years have generally been less desirable. The economy that had enjoyed relative stability in 1990 suffered considerable instability and stagnation, especially in 1991, due to sluggish growth, low capital utilisation,

unemployment, deteriorating infrastructures, high inflation, and accelerated depreciation of naira associated declines and worsening debt situations.

Though the CBN has taken several measures to improve macroeconomic stability like excess liquidity management to reduce liquidity in the system, little success has been achieved. Most monetary authorities across the globe are taking the bold step to blend monetary policy with an element of financial stability, in addition to promoting resilience through collaboration and advocacy, with periodic reviews of environmental circumstances and attendant risk.

This study's main objective is to look at the problems that militate against the realisation of the monetary policy objectives and focus attention on the prospects of minimising the effect of the problems outstanding in terms of financial instability. These problems should be eliminated to have the advantages of a stable and efficient financial system's monetary policy objectives.

1.2 Statement of the problem

Many attempts are being made by the Nigerian authorities to attain a higher rate of economic growth and development accompanied by a certain degree of price increase in recent years, the phenomenon developed into several and prolonged inflation and stagflation. Indeed, it is increasingly being recognised that a process of economic growth is likely to provoke inflationary pressures, or the mismanagement of monetary policy tools or structural deficiencies remains a controversial matter.

Every economy's fundamental goals remain the same irrespective of its stage (developing or developed). Over the years, the objectives of several monetary policy instruments have been designed and applied in Nigeria to achieve the desired result of stable price level, rapid and sustainable economic growth rate, low level of unemployment, efficient banking system etcetera. Have not been achieved in no small extent.

No economy is protected from economic problems like the high unemployment rate, unfavourable balance of payment, inflation, unsustainable growth rate, increased printing of fake currency etcetera. Economists' desire to reduce these ills has led them to exert strenuous efforts in developing appropriate policies to solve these problems. However, the application of indirect monetary instruments has not brought forth the desired objectives stated above; hence, the government uses the direct monetary policy instruments.

The government uses monetary policy instruments (direct or selective) to aid in resolving these macro-economic problems.

Furthermore, Nigeria's monetary authority has been focusing on adjusting monetary aggregates, exchange rate policies, especially the financial sector, to affect the variables that it does not control directly. The policy process, which is relatively complicated in practice, involves using a price-based function nominal anchor that targets interest rate as a potent instrument for stabilising inflation and output over the business cycle. Hence, the problem is to ascertain the various measures to be adopted to achieve monetary policy objectives which will, in turn, result in financial system stability.

1.3 Objectives of the study

The objective of this study is as itemised below:

- i. Ascertaining the degree of performance of the monetary policy in achieving monetary stability and sound financial system.
- ii. We are highlighting the role of CBN in achieving financial stability.
- iii. They are making relevant suggestion towards achieving financial stability.

1.4 Research Questions.

- i. What is the long-run relationship between monetary policy and financial stability in Nigeria?
- ii. How does monetary policy help in achieving financial stability?

1.5 Research Hypotheses

For this research, the following hypotheses shall be tested:

- i. Ho: There is no significant relationship between monetary policy and financial stability.
- ii. Ho: Monetary policy does not help significantly in achieving financial stability

1.6 Definition of terms

Monetary base: This is also known as high-powered money or reserve money and comprises certain CBN liabilities, including currency with the non-bank public and total bank reserves.

Money stock or money supply: This refers to the total value of money in the economy, and this consist of currencies (note and coins) and deposits with the commercial and commercial banks.

Macro-economic: This is the study of aggregate, average or whole covering the entire economy.

Interest Rate: The interest rate provides a link between the change in a monetary variable (instrument) and the level of output, income and employment.

Financial stability: This is the financial system's resilience to unanticipated adverse shocks while enabling the financial system's intermediation process is continuing smooth functioning.

Open Market Operations (OMO): This involves sales or purchasing government securities in the open market, whether the economy is inflationary or deflationary.

Inflation: Means a sustained rise in the average price of goods and services in the country, without a corresponding increase in the quantity.

Liquidity: This is the excess of the money supply over money demand.

2.0 LITERATURE REVIEW AND THEORETICAL FOUNDATION

2.1 Theoretical/Conceptual Framework

CBN (2005) has defined monetary policy as any measure designed by the Federal Government through the Central Bank of Nigeria to control cost availability and supply of credit, which is referred to as the regulation of money supply and interest rate by to control inflation and stabilise the currency flow in an economy 2006). However, in the CBN Brief, monetary policy is the

combination of measures designed for the valuation, supply and cost of money in an economy in consonance with the expected levels of the economic activities (CBN, 1997)". If the economy pumps excess money into circulation, the resultant effect will be excess demand for goods and services when in turn cause the general price level to rise, with an imbalance BOP (Balance of Payment). The principal macroeconomic policies are price stability, external sector stability and a satisfactory rate of output growth.

The effect of monetary policy is a critical issue that has attracted many comments within and outside Nigeria.

The level at which monetary and banking policies regulate financial and economic activities has been broadly discussed over the years while it is widely accepted that financial development affects economic and financial stability performance, there are different views on the level of their effect and the role through which this effect is being achieved.

As time goes on, we shall pay attention to some specific research contributors to this review.

According to Wrightsman (1976), monetary policy as a deliberate effort by monetary authorities to control and regulate the supply and credit conditions to achieve specific macro-economic objectives. It is a primary economic stabilising weapon designed by the monetary authorities (CBN and federal government) to regulate, monitor, and control the volume and direction of credit in an economy to achieve specific macro-economic objectives.

Onyido (1999) defined monetary policy as an action designed by the monetary authorities to regulate the flow of money supply and its expansion depending on the period's economic conditions. For the target to be obtained the monetary policy goals, the level of money becomes equal to credit, inflation, interest rate, and growth rate.

Onyido (1999), went on to say that while some banking policy measures share monetary policy measures, other banking measures follow. Money plays a vital role in the efficient management of economic activities which will not cause a problem to its supply level, whether it is too little or too much.

Onyido sum the definitions mentioned above, and said monetary policy tries to pursue economic goals of a high rate of employment, control of inflations, rapid economic growth and maintenance of a healthy balance of payment through control of the economic supply of money, credit and interest rate being the course of credit. In a broader sense, he went further to say that "monetary policy regulates the money stock through the control of high powered services and rates of interest to maintain a stable internal and external balance of the nation's currency as well as ensuring sustainable growth". Sustainable growth means a realistic and consistent set of objectives within the general economic framework.

The financial system can also be considered stable when it engenders public trust regarding the safety of depositor's fund and facilities access to credit for stimulating wealth creation.

2.1.1 Theoretical Background of the study

The monetary theory has undergone a vast and complex evolution since studying the complex phenomenon that first came into the limelight. It has drawn many researchers' attention to the role and dimensions of money in attaining macro-economic objectives. Many studies conducted in the past aim to establish the relationship tween the stock of money and other economic aggregates, such as inflation and output, and the role of money in attaining policy objectives.

Theories of monetary policies became more pronounced during the 1930s and 1940s. It was believed that monetary policy's well-being in stimulating recovery from depression was more limited than controlling a boom and inflation. These views emerged from the experiences of Keynes in his theory.

Keynes's general view holds that during the depression, the CBN can increase commercial banks' reserve through a cheap monetary policy serving of Commercial Banks by buying securities, thereby reducing the country's interest rate. As a result of these, the ability to extend credit facilities to borrower's increases. However, the great depression tells us that in severe depression when pessimism among economic actors, such a policy's success is practically zero. In this situation, economic actors, the success of such a policy is practically zero. In this case, borrowing for long-term capital needs does not arise in a depression when the business activities are low.

The classical view of monetary policy hinges on the quantity theory of money which states that an increase in the quantity of money calls for an increase in the demand for goods and service, hence, the "Equation of Exchange" given by the current real gross domestic product (GDP).

Hence, 'PY' represents current; "nominal GDP," 'M' denotes the supply of money, and 'V' denotes the "Velocity of Money in Circulation." The velocity of money is the average number of times a piece of money is spent on buying final goods and services in a given year. Therefore, the equation of exchange is an identity which states that the current market value of all final goods and service, nominal GDP must equal the supply of money multiplied by the average number.

Monetarist view of monetary policy dates back to the 1950s. It is a new view of monetary policy called monetarism and disputes the Keynesian view that monetary policy is relatively effective. The adherent of monetarism argues that the demand for money is stable and cannot change the interest rates.

In reviewing the available literature, there are numerous volumes of literature on the subject of monetary policies. Hence, there exist various definition and different opinions on the issues of monetary policy.

Besides, monetary policy works through financial conditions on expected economic outcomes, but the risk to financial stability involves potential risk. The risks to future macroeconomic outcomes manifest only in some states of the world when adverse shocks are realised. These dimensions are critical because they greatly complicate efforts to incorporate financial stability in monetary policy determination. Policymakers would need to look beyond common conditions for risks that may arise with uncertain probability in the future, which outcomes could be discounted as they occur, but, the consequences can be severe.

2.1.2 Conceptual Background of the study

The monetary policy regulates money stock in an economy. It is often used as tools for analysing monetary aggregates, observing the flow of funds among financial units and changes in assets and liabilities if these financial institutions as money stock adjust. In other words, monetary policy performs two essential functions: determining the sources of inflationary or deflationary pressures and analysing the various financing mechanisms' role in the disturbance.

The primary objective of macroeconomic regulation is to examine trends in the financial system in particular and the economy that can impact financial stability and possibly trigger systemic

financial crises. With an efficient market, enough infrastructure to support the financial system and properly managed financial institutions, financial stress is less frequent, and the associated cost is much lower.

Forecast and Sidgwick (1998) questioned the operational effectiveness of the standard monetary policy. They argued that the financial system's nature thrived on confidence that financial institutions such as banks have natural incentive to conceal problems (actual, potential or emerging) from regulatory authorities during reporting periods. When transmitted to the monetary survey, such misreporting might not inflect their correct positions and distort the monetary survey's usefulness for policy-making and analytical purposes. Consequently, they advocated for an enhanced monetary survey with adjustments and re-classifications made, if possible, before the bank restructurings during periods of distress.

Similarly, the financial system's

failure to play its role in the economy can be considered financial instability. When the financial system is a constraint in facilitating savings mobilisation, resources allocation, investment and wealth creation, financial system instability can be adduced.

2.1.3 Types of monetary policies:

They are two kinds of monetary policies:

a. *Expansionary monetary policy*

is used by Central Bank to overcome economic depression, recession and deflationary gap. When there is a fall in consumer goods and services and business investment, a deflationary gap will emerge. The expansionary policy will ease the credit market conditions, leading to an upward shift in aggregate demand. The CBN purchases government securities in the open market at a lower price. It sets commercial banks' reserve requirements under her umbrella, lowers the discount rate, encourages consumer and business credit through selective credit measures, and carries out moral suasions.

b. *Restrictive monetary policy*

is a monetary policy designed to reduce aggregate demand (AD) and restrictive inflationary gap. Inflationary pressure in money takes place due to rising consumer demand for goods and services. The CBN introduced the restrictive policy to lower aggregate consumption and investment by increasing the cost availability of bank credit.

2.1.4 Aims and objectives of monetary policy

The CBN introduced the restrictive policy to lower aggregate consumption and investment by increasing the cost availability of bank credit.

Scholars conscientiously agreed that the single most important monetary policy objective is the pursuit of price stability. The exclusive function to control inflation and stabilise domestic prices in any nation is given to the Central Bank. The study established was able to establish that the fundamental tasks of any currency are:

- i. to achieve stability of domestic price and exchange rate
- ii. to control inflation;
- iii. to have and maintain a healthy balance of payment (BOP);
- iv. to promote the rapid and sustainable rate of economic growth and development;

- v. to maintain the macroeconomic stability of the nation;
- vi. to develop a sound financial system;
- v. to stabilise the nation's exchange rate, and
- vi. to maintain a high level of employment.

2.1.5 Instruments of monetary policy

and they are:

- i. i. Indirect Quantitative or General monetary policy,
- ii. ii. Direct Quantitative or Selective monetary policy.

Monetary policies affect the level of aggregate demand and supply of money, the cost and availability of credit, and they regulate the overall credit level in the economy through commercial banks. The indirect quantitative or general policy instruments are the bank rate variations, open market operation and cash reserve requirements. The direct quantitative or selective monetary policy aims at controlling specific credits.

They are discussed under the following:

a. Bank rate policy is the minimum lending rate offered by the Central Banks, rediscounting first-class bills of exchange and government securities in commercial banks' hands. During inflationary pressures, the central bank raises the lending rate offered to commercial banks, influencing the public's lending rate. On the contrary, when prices are depressed, the central bank lowers their bank rate making it cheaper to borrow. Commercial banks also lower its lending rate, making it easy for people to borrow money and invest in production, output, employment, income, and demand start rising.

b. Changes in reserve ratio: This is also known as the "Legal Reserve Ratio". This system was first adopted in the United State of American (USA) as a suggestion by Keynes "Treatise on Money" as a monetary device, and it refers to a law mandating all commercial banks and other financial institutions to keep a percentage of its total deposits in the form of the reserve fund in its vaults and also a certain percentage with the central bank. When prices are rising, the central bank raises the reserve ratio. Banks must keep more cash reserve with the Central Bank, which reduces its reserves and ability to lend to the public. The volume of investment, employment and output is adversely affected when the reserve ratio is reduced, the reserve of commercial banks is raised and their ability to lend improved which favourably affects economic activity

c. Open Market Operation (OMO): This refers to the sale and purchase of securities by the central bank in the money market. When prices rise, the central bank sells securities to the commercial bank, which reduces its reserves and ability to lend to the public or business community. On the contrary, when recessionary forces start in an economy, the central bank buys securities from business communities and commercial banks, increasing their reserves, investment, output, income and aggregate demand.

d. Credit controls are used to control specific types of credit designed for specific purposes. Such controls take the form of changing margin requirement to control speculative activities in the economy or particular sectors in specific commodities and rising prices. The Central Bank may raise the margin requirement on such credits, thereby issuing out limited funds in loans against specified securities.

e. Moral Suasion: This refers to the central bank's use of friendly or persuasive measures to influence the lending and other financial institutions' lending activities, especially the commercial banks, for the country's overall interest

2.1.6 Meaning of financial stability

Financial stability refers to the absence of systemic financial shocks or crises. It is merely the avoidance of a financial crisis in an economy (Macfarlane, 1999). The emphasis on systemic shocks or crisis is essential in this definition, as financial instability does not only connote financial ill-health of a particular bank, firm or household but extended to cover the entire financial system in an economy.

According to foot (2003), financial stability is attained if:

- i. Monetary stability is achieved.
- ii. The employment level in an economy is close to its natural rate.
- iii. The public reposes complete confidence in the operations of critical financial institutions and markets and

There is relative stability in the price movement of both real and financial assets. By inference, financial stability cannot be achieved in an economy characterised by rapid inflation or high unemployment rate. Similarly, high incidences of bank failures or financial institutions' inability to perform their intermediary financial role either for individuals or corporate customers are symptoms of financial instability, leading to a gradual erosion of public confidence in the financial system. The implication is a slowdown in economic growth due to credit's non-availability or high financial intermediation cost. Simply put, "financial stability is a state of affairs in which an episode of financial crisis unlikely to occur, so that fear of financial instability is not a material factor in an economic decision taken by household or businesses" (Allen & Wood, 2005).

It is important to emphasise that financial instability could have occurred if the financial shock or stress is significant enough to cause substantial damage to a large group of customers and counterparties.

Though financial institutions encompass both banks and non-banks, regulators tend to focus more on banks, as instability in the banking system can affect the entire financial system more adversely due to its contagion effects. Also, a financial institution's size is critical in central banks' consideration as their failure could trigger a system crisis.

2.1.7 Relationship between monetary stability and financial stability

Monetary stability is the condition in which an economy achieved a stable value of money over time. On the other hand, financial stability refers to a stable condition of critical financial institutions and markets that make up the entire financial system.

Monetary and financial stability policies play complementary roles in their contributions to sustainable economic growth. For instance, if regulatory and macro-prudential (financial stability) policies alone are insufficient to manage excess liquidity during a financial cycle, appropriate changes in interest rate (monetary policy) can be taken to stabilise the economy. Caruana (2014) stated that the close linkage and the complementary relationship between monetary and financial stability often referred to as the two sides of the same public good, are

justified because both involve the management of money and credit. The instability of one affects the other.

However, *how does financial stability support monetary stability?* A stable financial system is fundamental to achieving an effective monetary policy attributed to a crucial chain of linkages between monetary policy, the banking system and the real economy. Financial instability can be described as a lubricant that facilitates the smooth and effective operations of these linkages. In other words, financial stability impairs the effectiveness and efficiency of monetary policy. The implication is the malfunctioning and underperformance of financial systems' intermediation role, resulting in non-availability of credit for household and business. Dudley (2013), identified channels through which financial instability can adversely affect monetary policy operations. Financial instability can cause a significant reduction in aggregate demand, which could be difficult for a central bank to manage. For instance, it is conventional for central banks to lower monetary policy rate during recessions to stimulate aggregate demand, but there is a limit to which it can be lowered as it cannot be easily pushed below zero. This condition can compel monetary authorities to fall back on non-conventional instruments such as asset purchase with dire consequences.

2.1.8 Purpose of financial stability

The over-riding purpose of financial stability is to ensure the entire financial system's effective and efficient functioning involves strengthening the entire financial institutions using both micro-prudential and macro-prudential measures. The essence is to stabilise major financial institutions' operations whose collapse can jeopardise the entire financial system's health. Essentially, financial system stability is critical to economic growth due to the following four reasons:

A stable financial system is necessary for savers and depositors to respond to confidence and keep their funds with financial institutions for investment purposes. As an essential element of a conducive macroeconomic environment, financial stability can attract local and foreign investment into an economy. Monetary policy transmission is largely effective under a stable financial system. Therefore, financial stability assists monetary authorities in achieving their primary mandate of delivery price stability.

A stable financial system is fundamental to an efficient and well-functioning financial intermediation. A sound financial system is fundamental to attracting investment and promoting economic growth.

A stable financial system encourages markets to operate more effectively, particularly in promoting efficient allocation and distribution of economic resources.

2.1.9 Benefits of financial stability to the general public

In addition to the critical roles of financial stability in ensuring rapid economic growth, a stable financial system benefits the general public significantly in the following ways:

(a) *It aids the day-to-day financial transactions:* Individual and corporate organisations require financial institutions' services daily for their transactions. Sound financial institutions primarily facilitate services such as payments of salaries business transactions, utility bills, school fees, household purchases etcetera.

(b) *It encourages savings and deposit of funds:* savings and other investments are usually kept with a bank and similar financial institutions to promise to pay the amount saved or invested with interest at stipulated time. In times of need, depositors can withdraw their savings through the counter or automatic teller machines (ATMs). Similarly, financial institutions enable the public to make payment to other parties through credit cards.

(c) *Provision of loans:* Sound financial institutions have the capacity to mobilised and extend loans to those that need finances for purposes of consumption and business operations. Availability of loans aid business expansion and contribute to economic growth.

(d) *Facilitation of foreign transactions:* Transactions involving importation and exportation of goods and services are undertaken mainly through banks. Also, friends and relatives living abroad can send remittances through banks. These transactions can only be successful if people are confident of their funds' safety with financial institutions.

2.1.10 Roles of Central Bank of Nigeria (CBN) in ensuring financial system stability

Promoting financial stability remains one of the core functions of the Central Bank of Nigeria, as outlined in section 2 of the 2007 CBN Act. The CBN carries out this vital function by undertaking financial sector surveillance to promote the entire financial stem's stability and soundness, which would engender public confidence in the Nigerian financial system. The absence of an institution to carry out surveillance in the sector during the early stages of the Nigerian financial system's development led to several banks' failure between 1892 and 1951 (CBN, 2010).

From the early stage of the Nigerian financial market, up to the mid-1980s, the CBN adopted direct control of credit allocation and interest rate structure to channel bank credit to prioritised sectors of the economy. During this period, banks were mandatorily required to allocate a larger portion of their loanable funds to growth sector such as agriculture and manufacturing at a relatively low-interest rate. The low-interest-rate structure was designed to set as an incentive for private investors to access enough credit to increase output, stimulate growth and provide jobs.

However, the direct control measures failed to deliver the expected results as some banks preferred to face penalties rather than lending to some sectors, which were often perceived as highly risky. Due to the high level of disintermediation in the banking system, the direct control regime was abolished, introducing a market-based approach in 1986.

The adoption of a market-based model was the first comprehensive reform of the financial system in Nigeria. It was predicated on the need to liberalise the interest rate system, enhance efficiency and effectiveness of resource mobilisation and utilisation and promote growth, particularly the Nigerian economy's real sector. The government should ensure that a sound and stable banking system capable of delivering useful intermediation role, and the CBN formulated strategies through effective surveillance and enforcement of prudential standards is evoked.

The primary goal of these reforms centred on increased liberalisation of the banking business, and the promotion of healthy competition and safety measures amongst banks, towards engendering overall financial system stability. According to Sanusi (2012), it revolved around four pillars, which include: enhancing the quality of banks; establishing financial stability; enabling healthy financial sector, and ensuring that the financial sector contributes to the real economy".

The overarching goal of all the reforms mentioned above by the CBN was to achieve the emergence of a robust financial system capable of delivering effective and efficient intermediary functions of transferring funds from surplus units to deficit areas the Nigerian economy.

2.1.11 Constraint of monetary policy

There have been several lingering problems, which have bedevilled the conduct of the monetary policy. The problem may be grouped into these associated with the banking sector, Government and Central Bank of Nigeria (CBN).

1. Problem Associated with Government: -

(a) *Government fiscal deficit financing and excess liquidity:* The fiscal of expenditure of government has always exceeded revenue in recent years. The worrisome aspect of this deficit is that the central bank mainly finances it. The rising fiscal excesses have tended to weaken monetary measures' effectiveness as efforts at mopping excess liquidity have tended to be neutralised by injecting new money.

(b) *Harmonisation of fiscal and monetary policies:* Fiscal deficits of the Federal Government in the recent past has been out of tune with the monetary target because of improper coordination of the fiscal and monetary programs. The fiscal imbalance resulted from adverse consequences on the monetary base and the effective use of indirect tools. Fiscal viability during and after the preparatory period of the monetary programs is thus significant. Hence, it was necessary to continuously synchronise fiscal and monetary policies and formulate the open market operation policy's general thrust.

(c) *High debt service obligation:* The exacerbated high debt service ratio, especially on domestic debts, has been due mainly to high lending rate in the banking sector structure and the increasing number of an insolvent bank.

2. Problem Associated with CBN: -

The problems associated with the CBN which militate against their conduct of monetary policy are:

(a) *Distress in the financial sector:* The spread and persistence of distress in the financial sector have continued to pose a severe threat to monetary policy. The system's distress implies that the effect of policy cannot be transmitted effectively to the economy.

(b) *Ineffective payment system and technology:* Other constraint and effective monetary policy in the existence of an inefficient payment system, which is mostly cash-based. Unlike the electronic payment system, the cash-based constraint the speed of transmitting monetary policy's effect on the economy.

3. Problem Associated with Banks: -

The bank, which is one of the agents responsible for monetary policy implementation, and through which monetary system affects the economy has some problems that undermine its effectiveness, these include:

(a) *Insolvency of banks:* Following the massive size of bad and doubtful banks' debts are currently not solvency undermining interbank confidence and affects the non-banking public's general confidence. Confidence in banking is an invaluable asset of lack of undermining

competition among participation depository institutions during the period of indirect monetary and credit control.

(b) Lack of statistical data: A successful manipulation of reserve requirement and open market operations will require timely and reliable data on banks' liquidity position and the factors determining the monetary base. The data are presently available monthly with some uncomfortable lags. On account of these short-comings, the authorities have found it challenging to monitor the economy's regular and timely activities as expected.

2.1.12 Prospects for effective monetary policy

The conflicts in monetary policies are likely to be minimised as the problem has been brought into focus. In 1993, two inter-ministerial committees, the Budget Monitoring Committee and Fiscal Co-ordination Transparency Committee, were set up to ensure budgetary disciplines and public funds management transparency. Furthermore, a National Economy Intelligence Monitoring Committee was set up in January 1994 to reinforce the ideals of budgetary discipline and transparency in public agencies and parastatals. As part of the strategy for managing the economy under indirect monetary control techniques, all government deficits are expected to be financed through the money and capital markets. Assuming these measures are addressed, the problems of monetary policies implementation could be minimised.

The budget committees' role would also install proper financial accountability and minimise lag in statistical data. Furthermore, some progress has been made in computerisation of banking system operations, and efforts are on to develop an inter-grated electronic information system which would improve the information flow in the financial sector. As domestic liquidity is kept under effective control, the naira exchange rate depreciation would be reduced and sustainable. The problem of insolvent banks is jointly resolved by the CBN and the Nigeria Deposit Corporation (NDIC), which will result in the rehabilitation of many distressed banks and the promotion of confidence in the financial sector.

2.1.13 Causes of financial instability

Understanding the causes of financial instability is crucial to designing policies that can prevent it from occurring. The following are some of the factors responsible for financial instability.

There are as follows:

The outflow of foreign capital.

Economic recession.

Increase in interest rate.

Risk of uncertainty in the macroeconomic environment.

Effect of an asset market in the balance sheet.

Challenges in the banking sector.

2.1.14 Measures for preventing the occurrence of financial instability

While ensuring financial stability remains the primary responsibility of Central Banks, other critical stakeholders such as the fiscal authorities or finance ministry and financial institutions themselves have an essential role.

There are five vital preventive measures usually adopted by the government in reducing the probability of the occurrence of financial instability in an economy. These includes:

Establishment of statutory laws.

The setting up of dedicated official agencies to regulate financial institutions.

Prudential supervision.

Market conventions.

Communicating relevant official information to stakeholders

2.2 Empirical Literature Review

Ajayi & Atanda (2012), studied the effect of monetary policy on banks performing in Nigeria between 1970 and 2008, using the Engle-granger two-step co-integration approach. The empirical estimate indicates that bank rate, inflation rate and exchange rate are total credit. However, only the cash reserve ratio and exchange rate were significant at 5% level, while the co-integration test indicated the absence of a long stable relationship.

Fasanya, Onakoya & Agboluaje (2013), examined the impact of monetary policy on economic growth in Nigeria, using time-series data from 1975 to 2010. The result shows each of the endogenous variables' stochastic shocks when exposed using the Error Correction Model (ECM). The results indicate that the long-run relationship that exists among the variables, inflation rate, exchange rate, and external reserve are potent instruments of monetary policy that brings growth in the Nigeria economy.

Onyeiwu (2012), examined that monetary policy analysis represents that money supply positively impacts GDP growth and payment balance. However, the negative impact on the inflation rate, and he concluded that CBN monetary policy effectively regulates the economy's liquidity, affecting some macroeconomic variables such as output, employment, and prices.

Okwo, I.M. Eze (2012) examined the effect of monetary policy outcomes on Nigeria's financial-economic stability. The study analysed gross domestic product, credit to the private sector, net credit to the government and inflation using the OLS technique. None of the variables was significant, which suggested that monetary policy as a policy option may have been active in influencing price stability.

Omoken & Ugwuanyi (2010) investigated the relationship between inflation and output using Co-integrating and Granger Causality test, and his findings revealed no co-integrating vector in the time series of his analysis. He concluded that monetary stability could contribute to the Nigerian economy's financial growth as price level changes in consonance with the money supply. Thus, it concluded that Nigeria's inflation is in no small extent, a monetary phenomenon.

Okoro (2013), examined monetary policy on Nigeria's financial and economic growth by regressing interest rate, inflation, exchange rate, money supply and credit on Gross Domestic Product (GDP).

Adefeso and Mobolaji (2010), also investigated monetary policy and financial stability growth in Nigerian by employing Jabanen Maximum Likelihood Co-integration procedure. The result shows a long-run relationship between economic growth, degree of openness, government expenditure and broad money supply M2).

Michael and Ebibai (2014) examined the monetary policy using selected macroeconomic variables which are Gross Domestic Product (GDP), inflation and balance of payment (BOP) in Nigeria using OLS regression analysis. The result shows that the provision of an investment-friendly environment in Nigeria will increase GDP growth.

Akujobi (2012), investigated that monetary policy instrument on economic development of Nigerian using multiple regression techniques and found out that treasury bill, minimum rediscount rate and liquidity rate have a significant impact on economic stabilisation. Argument Dickey-Fuller (ADF) test, Philips-Perron Unit Test, Co-integration test and Error Correction Model (ECM) techniques were employed. This result shows the existence of a long-run equilibrium relationship between monetary policy instrument and financial stability.

Empirical evidence is limited since traditional macro-economic tools have not achieved broader financial stability. Furthermore, higher bank capital ratios are found to reduce the probability of a financial crisis.

2.2.1 Monetary policy as a tool for economic growth

According to Anyanwu (2003), countries seeking sustainable economic growth must first stabilise after a macroeconomic imbalance. In Nigeria, monetary policy effective implementation is an essential tool for stable economic growth.

The effect of sustainable growth began in Nigeria in the early 1980s with the Structural Adjustment Programme (SAP) due to the emergence and persistence of unstable macroeconomic variables. The Structural Adjustment Programme (SAP) as a monetary policy was aimed at moderating inflation, increasing domestic savings, allocating resources efficiently, improving capital inflow and local production and employment, external reserves and stabilising external reserves and enhancing external reserves and stabilising the Naira exchange rate.

Ajayi (1978), emphasised that monetary policy instrument varies in line with the economy's fluctuations.

Schwartz (1969), said that the three criteria often used in judging the short-term target of any monetary instrument are whether it is measurable and controlled by the central bank or not, and used as an indicator of monetary conditions.

Crockett (1973), highlights the primary technique by which the Central Bank achieves monetary policy objective through market intervention and portfolio constraints. He went to say that market intervention relies on the central bank's power as a dealer in the financial markets to influence assets' availability and return rates. At the same time, portfolio constraints place restrictions on a particular group of institutions (banks) to limit their freedom to acquire assets and liabilities. Monetary instruments are classified as quantitative and qualitative tools.

Ramlett (1969), stated that the quantitative tool is used primarily to influence the cost, volume and availability of bank reserves, affecting the supply of credits, and its effect is generally impaired and impersonal. However, qualitative tools typically seek to regulate the demand for specific users' credit and, therefore, selective.

2.3 Summary of Literature Review and Research Gap

In summary, there is expanding literature to address the classification of instruments and whether and how monetary policy should consider financial stability. These include financial frictions such as asymmetric information, which lead to asset prices that affect collateral values and borrowing constraints, such as financial firms' risk models and limited liability. A tighter fiscal policy is too late to stop a credit boom or to stamp out credit growth that reflects technology gains in borrowing. More research is needed, but considerable evidence suggests that monetary

policy needs to incorporate more financial sector features, particularly time-varying risk premium and risk-taking.

From the above, macro-economic and monetary policies, that will prevent the build-ups and vulnerabilities is worth studying.

Some central banks have computing single aggregate measures of financial stability, and no such measures can be used without the knowledge and use of other quantitative or qualitative instruments. Moreover, single aggregate measures reflect the financial system conditions; it is not clear how well they would perform in signalling the onset of financial stress.

Furthermore, this study will deepen our understanding of monetary policy and financial stability in Nigeria.

3.0 METHODS OF STUDY

3.1 Research Design

The researcher developed a structured questionnaire and personally administered to the Central Bank of Nigeria Staff as respondents, who have knowledge about the problem and can provide useful information for the study.

3.2 Population of the study

The study population was determined on the basic of CBN staff, a population of fifty (150) staff was drawn out of the department of Domestic Monetary and Banking Supervision and Banking Sector, through questionnaire administration as shown in appendix B.

3.3 Sample and Sampling Technique

The sample was drawn randomly from staff comprising of the department of Domestic Monetary and Banking Supervision, Banking Sector and other Non-CBN Staff who have a broad knowledge of the problem under study.

However, the Yaro Yemene's formula was adopted to determine a workable sample size of 50 CBN staff for the study.

3.4 Nature of Data

The most important data collection source (gathering) depends on the kinds of study carried out. For this study, the researcher uses primary data collected by administering questionnaires from respondents of the Central Bank of Nigeria. Secondary data were collected principally from annual reports of Central Bank of Nigeria (CBN) statistical bulletin, Financial Stability Reports. Also, from this source, more information or data were obtained. These include address presented at a seminar, magazines, journals, textbooks, unpublished lecture notes, other research works, statistical bulletins, and newspapers, which provides sufficient background for literature review used in chapter two of the study.

3.5 Methods of Data Collected /Instrumentation

The researcher used the questionnaire method to gather primary data from personal administration and secondary data gathered from seminar papers, magazines, journals, textbooks, unpublished lecture notes, other research works, CBN statistical bulletin, and newspapers.

3.6 Model specification or Estimation techniques

There are many statistical test instruments used for the analysis of data collected. These are descriptive statistics, multiple regression method, spearman correlation, Pearson Product Moment Correlation Co-efficient (PPMCC), chi-square (χ^2) and percentage method. However, for this study, the researcher has chosen the Pearson Product Moment Correlation Co-efficient (PPMCC).

The formula for the model is given as:

$$r = \frac{N \sum Xy - (\sum X)(\sum y)}{\sqrt{[N \sum X^2 - (\sum X)^2][N \sum (y^2) - (\sum y)^2]}}$$

Where: N = number of sample size

$\sum xy$ = product of the sum of X and y

$(\sum X)^2$ = sum of X, all squared

$\sum y^2$ = sum of squares of y

$(\sum y)^2$ = sum of y, all squared

r = correlation co-efficient

The major instrument used in this research was the questionnaire administered to the respondent. The researcher developed the questionnaire on a five (5) point LIKERTS (1932) scale. The questionnaire was into two (2) parts:

(a) *Part 1*: This part consists of demographic items designed to obtain information on personal data like:

Sex

Age

Marital status

Working experience

Educational qualification

Department

(b) *Part 2*: This section contains an item on monetary policy and financial stability, which was on a four (4) point Likert's scale as described below:

1. Agreed (A)

2. Undecided (U)

3. Disagreed (D)

4. Strongly disagreed (SD)

However, for this research, only a few of the five points of complexity are used. They are: Agreed (A), Undecided (U), Disagreed (D).

3.7 Statistical tools for Data Analysis

A questionnaire was coded to allow for statistical analysis. The researcher considered this statistical tool of analysis to include monetary instrument, interest rate, price stability, and Pearson Product Moment Correlation Co-efficient (PPMCC) to test the hypothesis. It enumerates the findings and analysis of data collected and procedures adopted.

3.8 Validity / Reliability of the instrument

This work has been read repeatedly by the supervisor, corrections have been made where lapses occurred, and necessary data were added in places needed, hence the test's validity.

4.0 DATA PRESENTATION, RESULT AND DISCUSSIONS

4.1 Presentation of Data

The clear researcher explanation of findings and interpretation, based on each provides of the hypothesis tested. In chapter three, it was stated that primary data were collected through the use of questionnaires, as well as personal observation. This chapter sets out to present responses to the questionnaires. It was also identified in the previous chapter that respondents were selected from the staff of the Central Bank of Nigeria (CBN). A set of fifty (50) copies of questionnaire were administered to the staff. Among the questionnaire distributed, five (5) were lost or destroyed, and only forty-five (45) were completed and returned, and the responses provided the basis for the presentation and analysis of data.

Tables are used in presenting the respondent data, after that analysis and interpretation of the data, enabling the researcher to conclude by using the PPMCC to test the hypothesis.

Table 4.1 Number of Questionnaires Administered and Returned by CBN staff and Non-CBN staff

Departments	Numbers Administered	(%) Percentage	Number Returned	(%) Percentage
Domestic Monetary	15	25	13	23.75
Banking Supervision	10	25	9	20
Banking Sector	15	25	14	21.88
Non-CBN staffs	10	25	9	21.87
Total	50	100	45	87.5

Source: Field survey 2017

Table 4.1 above shows that out of fifty (50) questionnaire distributed, forty-five (45) were completed and returned accordingly. This number 87.5 represent returned questionnaire. The questionnaire returned to show a significant response by respondents, and analysis showed that five (5) questionnaire 12.5% were not returned. The analysis also showed that staff in Domestic Monetary 13 out of 15 questionnaires were returned representing 23.75%, Banking Supervision staffs returned 9 out of 10 questionnaires representing 20%, Banking Sector staffs returned 14 out of 15 questionnaires representing 21.88%, Non-CBN staffs (customers) returned 9 out of 10 questionnaires representing 21.87%, giving a total of 87.5%.

4.2 Data Analysis**4.2.1 Analysis of Research Question One**

Question: What is the long-run relationship between monetary policy and financial stability?

Table 4.2 Responses from Domestic and Monetary Department (CBN) staffs

Responses	Number of Respondents	Percentage (%)
Agreed	9	80
Disagreed	2	14.3
Undecided	2	5.7
Total	13	100

Source: Field survey 2017

From table 4.2, the analysis reveals that 9 CBN staffs representing 80% of the respondents agree that there is a relationship between monetary policy and financial stability, two respondents representing 14.3% disagreed to this fact. In contrast, two respondents out of 13, representing 5.7% were neither YES nor NO, which means they were not sure.

Table 4.3 Response from Banking Supervision

Responses	Number of respondents	Percentage (%)
Agreed	5	62.5
Disagreed	3	28.1
Undecided	1	9.4
Total	9	100

Source: Field survey 2017

It is also revealed that from table 4.3 above shows five respondents representing 62.5% said that there is a relationship between monetary policy and financial stability, 3 of the respondent representing 28.1% disagreed, while just one was undecided representing 9.4% of the respondent.

Table 4.4 Responses from banking Sector

Responses	Number of respondents	Percentage (%)
Agreed	9	68.4
Disagreed	3	18.4
Undecided	2	13.2
Total	14	100

Source: Field survey 2017

From table 4.4. the analysis shows that nine respondents representing 68.4% said yes, three respondents representing 18.4 said no, and 3% said they are not sure if there is a relationship between monetary policy and financial stability.

Table 4.5 Responses from Non-CBN staffs

Responses	Number of respondents	Percentage (%)
Agreed	4	67.5
Disagreed	3	20.1
Undecided	2	12.4
Total	9	100

Source: Field survey 2017

Table 4.5's Non- CBN staff (customers) responses show that four respondents representing 67.5% agreed that there is a relationship between monetary policy and financial stability. In contrast, three respondent representing 20.1% disagreed to that, and four respondents representing 12.4% are not sure if there is any relationship between both.

Table 4.6 Summary of responses to Research Question One: Relationship between monetary policy and financial stability in Nigeria.

Responses	Domestic Monetary	Banking Supervision	Banking Sector	Non-CBN staff	Total
Agreed	9	5	9	4	27
Disagreed	2	3	3	3	11
Undecided	2	1	2	2	7
Total	13	9	14	9	45

Source: Field survey 2017

4.2.2 Analysis of Research Question Two

Question: How does monetary policy help in achieving financial stability in Nigeria?

Table 4.7 Responses from Domestic Monetary of CBN staffs

Responses	Number of respondents	Percentage (%)
Agreed	9	86.8
disagreed	4	13.2
Undecided	0	0
Total	13	100

Source: Field survey 2017

In this table 4.6 above, nine domestic monetary staff representing 86.8% agree that monetary policy helps achieve financial stability, four respondents representing 13.2% disagree to this and 0 respondents representing 0% were not sure.

Table 4.8 Responses from banking supervision

Responses	Number of respondents	Percentage (%)
Agreed	7	70.5
Disagreed	2	29.5
Undecided	0	0
Total	9	100

Source: Field survey 2017

Table 4.7 above shows that seven respondents representing 70.5% agree that monetary policy helps achieve financial stability, two respondents representing 29.5% disagree, and none of them is neither yes nor no.

Table 4.9 Responses from the banking sector

Responses	Numbers of respondent	Percentage (%)
Agreed	8	82.0
Disagreed	3	9.0
Undecided	3	9.0
Total	14	100

Source: Field survey 2017

In table 4.8, the analysis shows that eight respondents representing 82.0% from the banking sector office agree, three respondents representing 9.0% disagree and three respondents representing 9.0% are not sure if monetary policy helps in achieving financial stability.

Table 4.10 Responses from Non-CBN staffs

Responses	Numbers of responded	Percentages (%)
Agreed	5	82.0
Disagreed	2	9.0
Undecided	2	9.0
Total	9	100

Source: Field survey 2017

Table 4.9 shows that five respondents representing 82.0% of non-CBN staff agree that monetary policy helps achieve financial stability, two respondents representing 9.0% disagree to this and two respondents representing 9.0% are not sure.

Table 4.11 Summary of responses to Research Question Two: Monetary policy helps in achieving financial stability in Nigeria

Responses	Domestic Monetary	Banking Supervision	Banking sector	Non-CBN staff	Total
Agreed	9	7	8	5	29
Disagreed	4	2	3	2	11
Undecided	0	0	3	2	5
Total	13	9	14	9	45

Source: Field survey 2017

4.2.3 Analysis of data in Appendix D

From 'appendix d' in page 63, the table shows some annual variables in the movement of money supply, inflationary rate, interest rate, GDP, exchange rate and cash reserve ratio of the Central Bank of Nigeria. As evidenced from the table, a cursory look at inflationary rates shows that it

maintained persistently increased fluctuations until it reached its peak of 72.8% in 1996, it continues to fluctuate from 1998 to 2009, and in 2010 was 4.8% which could be tagged as the lowest ever witnessed by the economy, and continue to increase in percentage in 2011 to 2014 and decline in 2015 following a sharp increase in interest rate. On the other hand, interest rate increase until it reached its peak at 36.09% in 1992 after the little visible fluctuations. The increasing trend continued up to 30.19% in 2002, in 2006-2013 maintained a persistent but minor fluctuation which This may not be unconnected from the recent global financial crises that found its way into the economy.

4.2.4 SUMMARY OF ANALYSIS:

The analysis found out that the monetary policy and macroeconomic variables of the exchange rate, inflation and interest rate do not significantly impact GDP growth. Although exchange rate showed a positive relationship towards GDP growth, the impact is not significant while inflation showed a negative relationship towards GDP. It also noted that the independent variables are auto-correlated meaning there is a significant relationship between monetary policy and financial stability and monetary policy helps significantly in achieving financial stability. Therefore, their effect should have a collective impact on the economy as findings have shown.

4.2.5 Testing of Hypotheses One

Ho: There is no significant relationship between monetary policy and financial stability in Nigeria

Hi: There is a significant relationship between monetary policy and financial stability in Nigeria

Table 4.12: Significant relationship between monetary policy and financial stability in Nigeria

Responses	Dependent variable (X)	Independent variable (Y)	X ²	Y ²	XY
Domestic Monetary	9	2	81	4	18
Banking Supervision	5	3	25	9	15
Banking Sector	9	3	81	9	27
Non-CBN staffs	4	3	16	9	12
Total	27	11	203	31	72

Source: Field survey 2017

4.2.6 CONCLUSION:

The Pearson Product Moment Correlation Co-efficient PPMCC (r) for the data analyses in Table 4.12 shows a positively high correlation, implying a significant relationship between monetary policy and Nigeria's financial stability.

Decision:

Since the tabulated correlation is more significant than the computed value, we accept the alternative hypotheses (Hi) and reject null hypotheses (Ho) as in Appendix C.

4.2.7 Testing of Hypotheses Two

Ho: Monetary policy does not help significantly in achieving financial stability in Nigeria.

Hi: Monetary policy helps significantly in achieving financial stability in Nigeria.

Table 4.13: Monetary policy helps in achieving financial stability in Nigeria

Responses	Dependent variable (X)	Independent variable (Y)	X ²	Y ²	XY
Domestic Monetary	9	4	81	16	36
Banking Supervision	7	2	49	4	14
Banking Sector	8	3	64	9	24
Non-CBN staffs	5	2	25	4	10
Total	29	11	219	33	84

Source: Field survey 2017

4.2.8 CONCLUSION:

The Pearson Product Moment Correlation Co-efficient PPMCC (r) for the data analyses in Table 4.13 shows a positively high correlation, meaning that monetary policy helps significantly achieve Nigeria's financial stability.

Decision:

Since the tabulated correlation is eater than the computed value, means that we accept the alternative hypotheses (Hi) and reject null hypotheses (H) as shown in Appendix C.

4.3 Re-statement of Hypotheses

In this section, the hypotheses are tested using Pearson Product Moment Correlation Co-efficient (PPMCC) method. In respect of Null Hypotheses, the decision rule is stated as;

Reject Null Hypotheses if (r) computed is greater than the table value of r and Accept if computed (r) is less than the table value of 'r'.

Hi: There is a significant relationship between monetary policy and financial stability in Nigeria.

Hi: Monetary policy helps significantly in achieving financial stability in Nigeria.

4.4 Discussion of Findings

This research's overall finding makes a vital contribution to understanding monetary policy and financial stability in Nigeria. In the process, the report has confirmed some of the findings in earlier surveys by the regulatory authorities especially with prospects for findings of the report point to the direction of informed knowledge on monetary policy and the role of CBN in ensuring financial system stability. However, some questions' subjective nature and many of the

report call for caution in using figures operated through questionnaire administration in this study. The need for caution notwithstanding the research report has complemented and enhanced the existing information on the achievements, problems and future direction of monetary policy, financial stability and its implementation in Nigeria.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

The topic chosen for this research is Monetary Policy and Financial Stability in Nigeria: A Comparative Analysis; aimed at examining the effectiveness of any Central bank in executing its functions, and its ability to promote monetary and financial stability.

Attainment of monetary stability devolves on a monetary authority's ability to evolve effective monetary policy and implement it effectively. At such level, money plays the roles of an efficient lubricant of the wheel of economic activities.

5.2 Conclusions

The Central Bank of Nigeria focuses on mopping up in the face of global financial crises. Hence, policymakers and researchers are forced to thoroughly rethink that monetary policy and financial stability should be kept separate. However, the water-tight link between financial stability and monetary policy is just not possible. The effects of monetary policy and micro and macroprudential policies are a quantitative and empirical issue. Macro models in use before the financial crisis could not predict the crisis. These models thus provide insufficient (but still useful) guidance on quantitative and empirical relationships. Indicators of credit conditions, such as credit volumes, risk premiums and house prices, were not directly considered in monetary policy decisions before the crisis. As new policy tools emerge, a new analytical framework has to be developed to help government executives and policymakers select and implement the right decisions and communicate them to the general public. We argue that less time should be spent debating whether monetary policy and financial stability are connected to make progress.

The financial crisis has accelerated introducing a new policy domain called macroprudential policy to maintain financial stability. However, the monetary policy framework's implications are diverse and influenced by price stability and macro-prudential monetary policy objectives. The costs of financial instability and systemic financial crises are substantial, as cleaning up is no longer an option. While the new macroprudential policy framework should be the primary tool for maintaining financial stability, it is still very much under construction and its effectiveness in avoiding systemic crises mostly unproven. At the same time, there is evidence that the standard monetary policy stance intimately interacts with essential drivers of financial imbalances such as credit, liquidity, and risk-taking.

Furthermore, various non-standard monetary policy instruments such as reserve requirements, collateral rules, and asset purchases can distinguish monetary policies from macro-prudential tools about financial market malfunctioning. All these arguments are supportive of financial stability an explicit objective of monetary policy.

First, as policymakers are unlikely to prevent financial crises altogether, there is a risk that affects the Central Bank's reputation, which affects its overall independence and credibility. Secondly, when both objectives are equally ranked, it may give rise to time-inconsistency

problems. However, a concern for financial stability may lead to financial dominance, risks, and price stability, which remains the primary objective of monetary policy.

5.3 Recommendations

The following are the recommendations put forward by the researcher:

The government should ensure that monetary and financial management in the 21st century is maintained; monetary policy insulation should be insulated from governments' pressure to finance its deficit. Happily, the government is becoming increasingly aware of the adverse implications of the mandatory inflationary financing of its monetary deficit by CBN and has shown a remarkable commitment to macro prudence, this aid the impact of monetary policy measures adoptee. It is hoped that the current monetary policy stance will enhance efforts to achieve monetary stability and sound financial stability.

CBN should sustain their current effort in restricting financial institutions to ensure a healthy and competitive financial sector necessary for the transmission of monetary policy impulse to the real sector of the economy. Besides, there is a need to strengthen CBN's supervisory in the financial sector's size and structure, given the liberalisation policy, plug the leakages in the effects of monetary policy, and enhance its financial effectiveness.

Strong commitment to the improvement in information technology, no doubt will bolster CBN's technical capacity and brighten the prospects for the firm and timely data on the bank's operations. Furthermore, the need to identify the appropriate monetary aggregate for targeting calls for a stable economy, to ensure that developments and changes in the financial sector, which affect the moneyless monetary liabilities, are expected for appropriate financial stability.

The CBN should sustain regular consultations with the banks and the financial community to appreciate its monetary and financial policies. Such transparent practices will engender greater confidence in the financial community and elicit their monetary policy implementation co-operation.

Since our banking sector is ambiguous for the low educated people, it is advisable for CBN and monetary authority to work and devise easy and simple favourable to the public.

Lastly, the government should consider CBN and other financial institutions interested in monetary policy formulation and implementation to achieve ultimate macro-economic objectives and an improved financial system in the economy.

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Appendix C

Statistical test of Hypotheses:

(i) Test of hypotheses One: From table 4.12 on page 43-44

Where N = 4 items

Let X = those who said "yes" which is the independent variable; Significance relationship between monetary policy and financial stability in Nigeria.

Let Y = those who said "No" which is the dependent variable because financial stability depends on monetary policy.

$$\Sigma X = 27$$

$$\Sigma Y = 11$$

$$\Sigma X^2 = 203$$

$$\Sigma Y^2 = 31$$

$$\Sigma XY = 72$$

$$PPMCC (r) = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[N \Sigma X^2 - (\Sigma X)^2][N \Sigma Y^2 - (\Sigma Y)^2]}}$$

Substituting the above data into the relationship, we have:

$$r = \frac{4(72) - (27)(11)}{\sqrt{[4(203) - (27)^2] [4(31) - (11)^2]}}$$

$$r = \frac{(288) - (297)}{\sqrt{(812 - 729) (124 - 121)}}$$

$$r = \frac{9}{\sqrt{(83) (3)}}$$

$$r = \frac{9}{\sqrt{249}}$$

$$r = \frac{9}{15.7797}$$

$$r = 0.5735.$$

$$r = 57\%$$

(ii) Test of hypotheses Two: From table 4.13 on page 45-46

Where N = 4 items

Let X = those who said "yes" which is the independent variable; Monetary policy helps significantly in achieving financial stability in Nigeria.

Let Y = those who said "No" which is the dependent variable because financial stability depends on monetary policy.

$$\Sigma x = 29$$

$$\Sigma Y = 11$$

$$\Sigma X^2 = 219$$

$$\Sigma Y^2 = 33$$

$$\Sigma XY = 84$$

$$PPMCC (r) = \frac{N \Sigma XY - (\Sigma X)(\Sigma y)}{\sqrt{[N \Sigma X^2) - (\Sigma X)^2][N \Sigma (y^2) - (\Sigma y)^2]}}$$

Substituting the above data into the relationship, we have:

$$r = \frac{4(84) - (29)(11)}{\sqrt{[4(219) - (29)^2] [4(33) - (11)^2]}}$$

$$r = \frac{(336) - (319)}{\sqrt{(876 - 841) (132 - 121)}}$$

$$r = \frac{17}{\sqrt{(35) (11)}}$$

$$r = \frac{17}{\sqrt{385}}$$

$$r = \frac{17}{19.6214}$$

$$r = 0.8664$$

$$r = 87\%$$

Appendix D

Table 4.14: Monetary policy and macroeconomic variables (1990-2015).

YEAR	MONEY SUPPLY	INFLATION RATE %	INTEREST RATE %	GDP (at Basic Price)	EXCHANGE RATE	CASH RESERVE RATIO
1990	52.85703	7.5	27.70	328.60606	8.04	2.9
1991	75.40118	13.0	20.80	545.6724113	9.91	2.9
1992	111.1123	44.5	31.20	875.3425183	17.30	4.4
1993	165.3387	57.2	36.09	1089.679717	22.05	6.0
1994	230.2926	57.0	21.00	1399.70322	21.89	5.7
1995	289.0911	57.0	20.79	2907.35818	21.89	5.8
1996	345.854	72.8	20.86	4032.300338	21.89	7.5
1997	413.2801	29.3	23.32	4189.249771	21.89	7.8
1998	488.1458	8.5	21.19	3989.450282	21.89	8.3
1999	628.9522	10.0	27.19	4679.212051	92.69	11.7
2000	878.4573	6.6	21.55	6713.574835	102.11	9.8
2001	1269.322	6.9	21.34	6895.198327	111.94	10.8
2002	1505.964	18.9	30.19	7795.758355	120.94	10.6
2003	1952.921	12.9	22.88	9913.518187	129.36	10.0
2004	2131.819	14.0	20.82	11411.66691	133.50	8.6
2005	2637.913	15.0	19.49	14610.88145	131.66	9.7
2006	3797.909	17.9	18.41	18564.59473	127.02	4.2
2007	5127.000	8.2	18.09	20657.31767	116.30	4.8
2008	8008.000	5.4	18.33	24296.32929	130.75	4.9
2009	9420.000	7.3	18.51	24794.23866	147.35	4.4
2010	11034.94	4.8	18.70	33984.75413	148.33	2.6
2011	12172.49	7.9	18.36	37409.86061	156.31	3.3
2012	13895.39	8.2	18.75	40544.09994	160.58	2.5
2013	15158.62	8.9	18.16	42396.76571	178.21	2.6
2014	17979.00	13.8	7.21	58902.35000	163.90	75.0
2015	18579.00	9.6	12.00	22262575.97	197.00	20.0

Source: Field survey 2017